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11 February 1976

MEMORANDUM

SUBJECT: Political Assessment of Iceland

Precis

In this as in past "cod wars," Icelandic officials have been quick to confide that settlement on their terms is necessary to prevent their government from collapsing and keep public opinion from forcing Iceland to withdraw from NATO. Although the argumentation is patently self-serving, officials in Washington, London, and Brussels have not dared to dismiss it out of hand. In brief, we believe that the Icelandic leaders have a good deal more control over their fate than they would like us to believe. On the other hand, we must accept the threat of minority coalition party leader Johannesson to bring down the government next week if the fishing dispute is not resolved. By doing so, he could expect to do well, perhaps quite well in subsequent elections and to play a leading role in the next--probably leftist--coalition. Even if the present government does not fall next week, differences of opinion are sharp and deep, and the dangers are very real that a protracted cod war could cause the government to resign from exasperation--leading to a leftist coalition--and sharpen public opinion against NATO.

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1. The current Independence-Progressive center left government, which controls 42 of the 60 seats in parliament, came to power in June, 1974 after a protracted domestic dispute over the US manned NATO base at Keflavik. Both coalition parties opposed efforts by the outgoing leftist coalition government to remove all forces from Keflavik by 1976. After the new government negotiated a settlement with the US in September, 1974, it enjoyed a brief period of calm.

2. Iceland unilaterally extended its fishing limits to 200 miles on October 15, 1975 and the ensuing dispute with the UK has dominated Icelandic politics ever since. Fishing provides about 75 percent of Iceland's export earnings, and the specter of depleted fish resources arouses deep concern among Icelanders. Both coalition parties are internally split over the question of how much fish the British should be allowed to catch. Prime Minister Hallgrimsson, leader of the Independence Party, favors granting the British some concessions in order to reach an agreement, while former prime minister Olafur Johannesson, leader of the Progressive Party, opposes giving in to the British. Like many Icelanders, he would prefer that Icelandic fishing waters be reserved for Icelandic fishermen.

3. To the dismay of Hallgrimsson, a majority in the government, including Johannesson, want Iceland to withdraw from NATO in protest. During an earlier outbreak of the cod war--in 1972-1973--Iceland threatened to withdraw from NATO and dismantle the US-manned Keflavik base as part of a strategy of attracting world attention to the dispute with the UK. Johannesson recently said that he defended NATO then, but was not prepared to support it again. Johannesson insists that the base must contribute to the defense of Iceland and that NATO's reluctance to intervene in the dispute proves that the base does not serve Iceland's interests.

4. Hallgrimsson has so far had to walk a political tight-rope between the hardliners in the Progressive Party and the more conservative members of his own party. The prime minister has warned that, given his precarious political situation, it would be political suicide for him to give in to British demands in order to reach a fishing agreement. He has had to back off several times already rather than risk a domestic political crisis. Johannesson has said that he will bring down the

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government unless a satisfactory solution is reached. Hall-grimsson had Johannesson's tentative approval earlier this week on a short term agreement before the British sent their warships back to the disputed zone.

5. If the British agree to withdraw their warships and the prime minister can convince Johannesson that a short term agreement will meet Icelandic demands, his government has a chance to survive. The alternative is a leftist coalition, including the Communists that would take an even tougher stand on the fishing dispute and perhaps make good on threats to withdraw from NATO.

Signed

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